

South African Government's Support to Small, Medium Micro-Enterprise (SMMEs): The Case of King William's Town Area

Stephen Mago¹ and Bigboy Toro

University of Fort Hare, P.Bag X1314, Alice 5700 South Africa

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ABSTRACT The aim of this paper is to evaluate the support that the South African government is giving to Small, Medium, Micro-enterprise (SMMEs). A case study was undertaken in the King William's Town area to establish the status of support to SMMEs. The paper, firstly, examines measures taken by the government to address the constraints of small business development. It further evaluates and analyses the effectiveness of the support given by the South African government to SMMEs. The focus will be on the provision of both financial and non-financial services to the SMMEs by Khula and Ntsika. Although the government remains committed to supporting entrepreneurship through Ntsika and Khula not much has changed in improving the performance of SMMEs. The external desk research methodology was followed. This comprised online desk research (use of the internet) data from funding agencies and published government data. The findings show that the awareness of programmes administered by Ntsika and Khula is low. This proves that the South African government's support of SMMEs through Khula and Ntsika has not been effective because SMMEs are not aware of the programmes.

INTRODUCTION

Since the 1994 democratic change, the national government of South Africa has implemented a range of new national support programmes designed to assist entrepreneurship development and the upgrading of the Small, Medium and Micro-enterprises (SMMEs). SMMEs represent an important vehicle to address the challenges of job creation, economic growth and equity in South Africa. Also, governments throughout the world are focusing on the development of the SMME sector to promote economic growth.

The role of SMMEs in the South African economy was highlighted in the White Paper on Small Business in 1995 and the corresponding National Small Business Development Act of 1996. As a result, two agencies were created under auspices of the Department of Trade and Industry (DTI), which are the Ntsika Enterprise Promotion Agency and the Khula Enterprise Finance (Diale 2008). The Ntsika Enterprise Promotion Agency is responsible for non-financial or business development services and the Khula Enterprise Finance functions as a wholesale financial institution supporting a range of

retail finance intermediaries that would deal directly with the SMME entrepreneurs themselves (ICC 1999). The study thus, explores the effectiveness of the Ntsika Enterprise Promotion Agency (Ntsika) and the Khula Enterprise Finance (Khula) in the attainment of their institutional objectives of providing financial and non-financial services to SMMEs.

An SMME in South Africa is any business with fewer than 200 employees and an annual turnover of less than 5 million rands, capital assets of less than 2 million rands and the owner is directly involved in the management of business (Cronje et al. 2000). The results of the state-driven delivery approach to entrepreneurial support have not been impressive. However, there are continuing problems with most government support programmes.

The South African government has put in place a number of other initiatives and institutions aimed at supporting SMMEs which include: the Centre for Small Business Development (CSBD), the Small Enterprise Development Agency, the Industrial Development Corporation (IDC), the National Empowerment Fund, the National Development Agency (NDA), the National Youth Development Agency (NYDA), the South African Micro-Finance Apex Fund (SAMAF), the Land Bank and the Micro-Agricultural Financial Institute of South Africa. However the study focused on Khula and Ntsika as they are the main institu-

Address for correspondence:

Stephen Mago
University of Fort Hare,
P. Bag X1314,
Alice 5700 South Africa

tional pillars created under the DTI that provide both financial and non-financial services to SMMEs (Rogerson 1999).

Problem Statement

Although the government remains committed to supporting entrepreneurship through Ntsika and Khula, seemingly, not much has changed in improving the performance of SMMEs. SMMEs are still struggling to have access to both financial and non-financial services provided by Ntsika and Khula. Programmes provided by Khula and Ntsika seem to have fallen short of their objectives. Despite repeated policy revisions, and repeated restructuring of new and weak agencies, South Africa is still struggling to create sustainable small businesses. Given this situation, it becomes vital to analyse the effectiveness of the government's national support through the provision of services (both financial and non-financial) by Khula and Ntsika. The question is; are Ntsika and Khula effective meeting their objectives of providing financial and non-financial services to the SMMEs in South Africa?

Objectives

The main objective of this paper is to evaluate the effectiveness of the South African national strategy to support SMMEs. The specific objective is to analyse the effectiveness of the government's national support through the provision of services (both financial and non-financial) by Khula and Ntsika created under the Department of Trade and Industry.

Significance of the Study

This study is significant and relevant as a means of developing a warning system which could assist both the concerned government and private sector structures incorporated in the national support of SMMEs. Policies and programmes to support the development of SMMEs are an important part of the democratic government's programmes to create a better life. Recognising that most programmes created under the government's national support for the development and promotion of small business sector in this country have been operating for ten years now, it is clear that undertaking an analy-

sis of their effectiveness in supporting SMMEs is vital. The findings will assist policy makers, development agencies and business organisations to ascertain the appropriate strategies for improving the SMME sector. In addition, the study will be beneficial to Khula and Ntsika in the sense that the results will indicate areas that need to be restructured, thereby improving the delivery of both financial and non-financial services to SMMEs. SMMEs will benefit also from improved service delivery from these institutions.

Delimitation of the Study

The purpose of demarcating a study is to make it more manageable and focused. Due to the logistical constraints of covering the entire South Africa, the study will focus only on King William's Town, in the Eastern Cape Province. There are many government institutions supporting SMMEs, however, this study will be limited only to Khula and Ntsika. The study focuses on Khula and Ntsika because their programmes provide both financial and non-financial support services to SMMEs. Their programmes cover the entire country, which makes it easier to generalise the effectiveness of government support to SMMEs.

Literature Review

Concept of Government Support

Governments focus on designing effective institutions as a means of providing, entrepreneurs with a predictable framework for business and necessary business skills to scale up their operations. As such, a framework is needed where government interacts with micro enterprise owners to provide them with basic foundational support through its existing agencies. Thus, government support is when government commits itself to give assistance to the public through its policies and institutions. Government gives assistance to producers or distributors in an industry to prevent the decline of that industry. Government support is aimed at improving the welfare of its citizens. The support may be in the form of financial and non-financial assistance.

Financial assistance mainly refers to subsidies, credits and soft loan guarantee schemes

provided by commercial and development banks (Zindiye 2008). The objectives of financial support are to create an enabling environment for small enterprises and facilitate a greater equalization of income, wealth and earning opportunities. Rogerson (2004) defines non-financial services as a package of services that is offered by governments, intermediaries and donor agencies at different stages of a project's life. Non-financial services comprise training, advice or consulting, supply of information and networking beneficiary enterprises in interactive relationships to the benefit of all engaged parties (Ntsika 2003). This enables entrepreneurs to expand their operations and deal effectively with the market.

Concept of Small, Medium Micro-enterprise (SMMEs)

The concept of small businesses is diverse and depends on the level of economic development in each country. There are different characteristics of SMMEs such as entrepreneurship, ownership, labour status, revenue, assets (excluding fixed property), the formal economy and the size of the entity. Internationally, the size of an entity is the criterion adopted mostly in SMME studies. What constitutes a small, medium or large company is by no means clear or uniform, even within individual countries. In Chile, companies are generally classified according to annual turnover; in South Africa, by turnover, gross asset value and the number of employees. In many cases, these classifications are enshrined in legislation; for example, in South Africa by the National Small Business Act (1996) and related Amendment Bill (2003).

An SMME in South Africa is any business with fewer than 200 employees and an annual turnover of less than 5 million rands, capital assets of less than 2 million rands and the owner is directly involved in the management of the business (Cronje et al. 2000). The National Business Act of 1996 defines SMMEs as a separate and distinct business entity, including cooperative enterprises, sole proprietorships, partnerships, close corporations, and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or sub-sector of the economy (Government Gazette of the Republic of South Africa 1996).

SMMEs in the South African context are classified into five categories: a) survivalist enterprises; b) micro enterprises; c) very small enterprises; d) small enterprises; and e) medium enterprises. The survivalist enterprise is generally seen as providing an income below the poverty line. Micro-enterprises are considered as businesses with a turnover of below the VAT registration limit of R300, 000 (Chalera 2007). Many of these informal and micro-enterprises provide the livelihoods of millions of people in South Africa.

In developed countries such as Britain, businesses with fewer than 500 employees are considered small, while in developing countries such as South Africa the number employed may be considerably smaller. "In developing countries a small business employs between 5 and 9 employees, whilst, a medium business employs between 20 and 90 employees" (Quartey 2001). For example in Zimbabwe the Ministry of Small and Medium Enterprise Development (2002) defines an SMME as a registered enterprise with employment levels ranging from 30 to 70 employees and depending on the type of industry will be referred to as a small or medium scale enterprise. According to the European Union (2004), an SMME is a small firm which employs fewer than 50 employees and a medium firm has fewer than 250 employees.

An analysis of both the South African and international definitions of SMMEs shows that, there is agreement on what constitutes an SMME in terms of the number of employees. The minimum number of employees is between 1 and 50 and the maximum is approximately 500 for medium enterprises depending on the industry. What is crucial is that sufficient capital must be made available so that SMME will be successful and will be able to grow and develop.

There seems to be an agreement in both South African and international definitions of SMMEs that an SMME must be registered and be formal. This is essential as it enables government to assess the contribution of the SMME to the economy. As per definition the asset base differs across borders, but is essential that a company have a sufficient capital base for production purposes and also for everyday operations. Nevertheless, this study adopts the definition by The National Business Act of 1996 which defines an SMME as a separate and distinct

business entity, including cooperative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or sub-sector of the economy. This definition is adopted because; it gives a standpoint of how the government defines SMMEs.

Theoretical Framework

The structuralist theory was used to underpin this study. Based on the works of Mahalanobis (1953), one of the prescriptions of the structuralist paradigm was that countries change their institutional structures. The structuralist theory argues that, traditional structures are not effective enough to provide financial and non-financial services to SMMEs. That is, traditional structures such as banks are not able to provide sufficient financial support to SMMEs, due to their lack of collateral. In response, the South African government created Khula and other financial institutions to support SMMEs.

In the structuralist paradigm, development has to include the expansion of new technology and methods of production in order to eliminate the gap between the most advanced sectors of the economy and those that lag behind (Contreras 2004). The goal is to have an economy where the total output, is divided equally among all of the country's economic sectors. Economic development, thus, can only be achieved through the expansion of those sectors of the economy which have been neglected (Portes et al. 1989).

Structuralists state that the government has a role to play in developing their people. For instance, the government has to assist the neglected sectors in accessing loans from financial institutions. In order to achieve this, the South African government has designed programmes to support SMMEs, and these include the Centre for Small Business Development (CSBD), the Small Enterprise Development Agency, the Industrial Development Corporation (IDC), the National Empowerment Fund, the National Development Agency (NDA), the Umsobomvu Youth Fund (UYF), the South African Micro-Finance Apex Fund, Ntsika and Khula.

Furthermore, the structuralist theorists, called for major government interventions in the

economy in order to promote industrialisation. Other policies that were recommended were fiscal (taxes and government spending) and monetary (money supply and interest rates) in nature (Contreras 2004). Love (2005), explains that government planning should follow a strategy of balanced growth, that is, "investment would have to proceed simultaneously in various sectors and industries

While the structuralist theory made significant contributions to our knowledge of the process of development, their prescriptions were not successful in many cases. Government-led initiatives to industrialise could not effectively create the most important phase of industrialisation relating to heavy machinery and plant installation. Moreover, the heavy involvement of the state in the market created inefficiencies eventually caused major internal and external economic problems. In addition, the drive to industrialise led, ironically, to increased dualism in developing countries as the gap between the rich and the poor widened. Therefore, government interventions are held to be bureaucratic, inefficient, harmful to individual incentives, and frequently characterized by policy mistakes which destabilise the economy (Hyman 1997)

But yet, despite these limitations, this study still supports major government intervention in the economy in order to promote industrialisation. This will help to improve neglected sectors with more access and opportunities to both non-financial and financial services. The existing traditional structures are failing to provide sufficient support to SMMEs. There is a need for structural changes which will assist SMMEs with access to non-financial and financial services.

METHODOLOGY

The study depended solely on desk research, and used secondary sources which include; previous research reports, newspapers, company websites, magazines and journal contents, government and NGOs statistics. The researcher also relied largely on the internet which has become a reservoir of information in modern society. However, the challenge that arose from using the internet is crafting searches and questions that will return the most relevant information. Despite this challenge, much data was gathered from this source.

FINDINGS AND DISCUSSION

Awareness of Ntsika and Khula programmes

Among people or potential clients in KWT, awareness of programmes administered by Ntsika and Khula is low. Although all 792 SMMEs that participated in the 1999 survey were formal, only about two thirds were aware of DTI programmes (Berry et al. 2002), and, only one-third of the sampled SMMEs had, on average, heard about these programmes. These findings support the general perception that SMME support programmes need to be marketed more effectively. Chalera (2007) in his study noted that out of 59 % of the respondents who know about Khula and Ntsika programmes, 70 % did not know how the programmes operate their business and how to access their services. They had no contact at all with any of the institutions.

According to Chandra (2001), the Instika/Khula programmes helped small business people with business training services. The programmes involved the establishment of a Local Business service centre, Tender advice centre, Retail Financial Intermediaries centre, Technopreneur programme, and Training and capacity building programme. More than 65% of the registered SMMEs benefited from the programmes.

There are indications that the originally well-intended policy measures suffer from suboptimal implementation. General distrust of external agencies among SMMEs on the one hand, and the incapacity of support institutions to persuasively raise awareness about their existence and effectiveness on the other, are said to be at the heart of the problem. Moreover, the poor co-ordination of service providers results in a replication of services (Berry et al. 2002).

With regard to Ntsika, Chandra et al. (2001) noted that, most service providers find that Ntsika has ineffective communication strategies with all levels in the provinces. They indicated that most of the marketing and educational materials are in English, not in the local languages, and these are poorly adapted to the realities of most local, especially rural, SMMEs, therefore missing their target market. Furthermore, the targets of the marketing programme are often unclear, as evidenced by Khula's poor efforts to market to the banking community. To

date, no coordinating committee has been established. Thus, a committee to formulate a communication strategy that is based on target audience using appropriate media needs to be formed to reach these groups.

The marketing of Khula and Ntsika and their service to SMME development stakeholders and SMMEs themselves, in particular is considered poor. As a result, SMMEs do not know who to approach for services. The exact role of Ntsika and Khula is therefore not generally understood at SMME level. The problem of poor marketing and publicity is also attributed to the strategy itself (Chalera 2007).

Attempted Usage of Ntsika and Khula Programmes

Of those SMMEs that know about the Khula and Ntsika programmes, only 15% approached these institutions for assistance. The local intermediaries that implement Ntsika and Khula programmes were approached by 19% of those SMMEs that were aware of them. More than 80% of the SMMEs in the sample did not approach either institution for assistance despite being aware of their programmes (Berry et al. 2002). These findings suggest that the respective institutions need to work on establishing links between SMMEs and their clients.

Satisfaction with Ntsika and Khula Programmes

Contrary to general perceptions, the vast majority of SMMEs that use support programmes appear to be satisfied with the assistance they obtain in terms of reception, quality and cost. Nevertheless, Ntsika's 'flagship' LBSC programme was rated worst (40% of SMMEs did not find it useful). Likewise, the costs of loans provided by Khula were perceived as too high by 69% of the sampled SMMEs (Berry et al. 2002). Stronger marketing efforts will help to increase the awareness among potential beneficiaries, but perceptions of institutions and selection criteria for programmes, decide whether usage follows awareness. Contrary to general assumptions, SMMEs that received assistance are generally satisfied with the quality and costs of services.

On average, two-thirds of the SMMEs that applied to Ntsika or Khula, and 88% of those

approaching the DTI received assistance. The remaining SMMEs apparently did not meet the requirements for assistance (Berry et al. 2002). This may indicate that the selection criteria are not made sufficiently clear to potential applicants.

Distribution of Ntsika and Khula Services

Service providers feel that both Khula and Ntsika could be more effective if they were physically located in the provinces at the local level, adapting their programmes to local circumstances (Chalera 2007). Most service providers suggested that Khula and Ntsika should have provincial offices. SMMEs in remote areas find it difficult to get assistance, as these institutions are located away from them. Berry et al. (2002:38) note that, often 'there is no lack of support services as such, but there is an uneven spread of where, how and in which fields services are offered'. This is exacerbated by the high search costs imposed on SMME entrepreneurs for accessing services, and the often cumbersome administrative procedures alongside the continual changes in programmes that act to frustrate SMMEs in applying for support to available programmes (Kesper 2002).

Skill and Experience of Ntsika Mentors

The quality of LBSCs was inconsistent and Ntsika's attempts at accrediting service providers did not work. The main reason for this seems to be that unqualified and inexperienced business advisors were employed (Berry et al. 2002). Participants noted that serious re-training of service providers was needed for better service delivery, or people with some business experience should have been employed to interact with the business clients.

A big problem that was identified was that not many mentors were able to help small business owners. A mentor's intervention must be tailor-made and highly individually crafted for the specific business owners. Mentors were of a low standard. They were not equipped with the right knowledge, and many tended to mentor businesses in such a way that the businesses became dependent on them (Foxcroft et al. 2002). An organisation which had the experience of dealing with a range of service providers found that the Ntsika service providers were the weakest when it came to delivery.

Ntsika Funding Allocation

Ntsika's prioritisation is reflected in budgetary allocations. The programme received R245 million, the vast portion of which goes to the Impact of South Africa's SMME programmes. By contrast, funding to Ntsika in support of the provision of non-financial services amounted to R40 million. It is clear from Ntsika's annual reports that the agency's actual programme funding is even lower. Ntsika's actual budget for direct programme funding was cut from R31, 5 million in 2001 to R27, 6 million in 2002 (Berry et al. 2002). Within this funding allocation, is the budgetary support for the LBSCs, which the 1995 White Paper had identified as 'the most important vehicle for small business support in the near future'? Foxcroft et al (2002) added that, funding allocations for SMMEs have inevitably favoured and been biased heavily towards support for established small and medium enterprises (often white owned) rather than emerging microenterprises and the informal economy.

Ntsika Outreach to SMMEs

Both emerging and established SMMEs show little awareness of the existence of Ntsika support initiatives. Established SMMEs, by contrast, are embedded in a network of "traditional institutions", such as the industrial councils and industry associations, but perceive them to lobby for large firms only and largely on labour-related issues (Karungu et al. 2002). The lack of faith in the ability of the government to make interventions in the economy that would lead to an improved environment for small business contributes to SMMEs not looking for Ntsika assistance. Nevertheless, South African SMMEs have seemingly not developed a culture of using private consultants and tend to underestimate the usefulness of these services (Berry et al. 2002)

Small, Medium Micro-enterprise Access to Khula Loans

According to Khula, the advancement of loans to SMMEs is based on 'sound business principles.' Commercial banks have channelled the bulk of the R138 million so far they have been advanced to the target market. ABSA Bank,

for example, has introduced a cash bonus system for staff that advance loans to SMMEs and has forwarded 71.8% of the R50 million guarantees allocated in the financial year 1998/1999 (Berry et al. 2002). Nevertheless, after public small enterprise hearings in parliament, the Minister of Trade and Industry, Alec Erwin, lamented that the banking sector had failed to provide finance to emerging small businesses.

Until February 2001, only 2612 loans had been extended under the Individual Guarantees Scheme, and the monthly reports from the RFIs to Khula reveal that micro-enterprises only constitute about 15% of their clients. The provision of finance to emerging SMMEs has been restrained by both banks and micro-entrepreneurs being unaware of the existence of Guarantee Schemes (Berry et al. 2002). This prompted Khula to initiate a communication and marketing campaign in 2001 that targeted banks only, and this boosted Standard Bank's lending to SMMEs.

Most micro-enterprises are not able to pass the hurdle of providing a business plan, which is the minimum requirement of banks to qualify for a loan. Chalera (2007) explains that, many micro-entrepreneurs do not know what a business plan is. Bankers, in contrast, are usually well informed, but often not willing (or able) to guide the potential client through the lending procedure. In addition, banks have little to no experience in communicating with micro-entrepreneurs or assessing their operations, and in some rural towns, SMME lending facilities are completely absent.

Khula Capacity Building

The biggest problem that Khula experiences is the lack of capacity of the RFIs. It takes time to build up the experience, capacity, and working models needed for success. Yet there has been tremendous pressure on Khula to disburse its funds. These organisations have been experiencing problems and the success rate of the established RFIs has been minimal. Khula tried to disburse its funds but RFIs in particular, were not yet in a position to get the funds to the final beneficiaries on a sustainable basis. The result was that Khula had to write off R30 million in loans. Of the existing 50 odd RFIs that receive support from Khula, only 20 or even fewer are expected to survive in the medium term (Karungu et al. 2002).

Performance of the Khula Credit Guarantee Scheme

Khula and the government's expectations regarding the role of guarantees in providing an incentive to lenders to provide loans to micro enterprises have not been met. The 2002 GEM report (Foxcroft et al. 2002) found that Khula's guarantee scheme was regarded as a good idea in principle, but was believed to have been poorly implemented and ineffectively marketed.

Schoombee (2000) argues that Khula's portfolio guarantees have not been successful in providing additional credit in less onerous conditions. He argues however that this should be compared with international evidence from both developed and developing countries that shows that there is very little evidence of additionality found in dozens of such schemes.

On the positive side, Khula set up a dedicated business development unit in their Marketing Division to liaise with banks on a constant basis, in order to try and increase the uptake of banks within this programme. Additionally, the training of bank staff was intensified and meetings with senior management were conducted (Khula 2003).

Khula Funding Gap

In a study by Chalera (2007), most service providers said that, while there are Retail Financial Intermediaries (RFIs) to conduct micro lending and the banks to conduct lending for larger, even medium size business, there is a significant gap between the two. Small businesses, that is, those needing between R30 000 and R200 000 are too big for Khula RFIs, yet too small for the banks. Frequently these small to medium business are the ones that have the greatest potential for job creation. This leads to SMMEs seeking financial assistance from private lending institutions which charge high interest rates.

CONCLUSION

The study found that Ntsika and Khula programs have fallen short of their objectives of providing financial and non-financial services to SMMEs. It is generally agreed that the originally well-intentioned support programmes fo-

cus on the main SMME constraints, but suffer from sub-optimal implementation. Contrary to such perceptions, however, the incapacity of support institutions to persuasively raise awareness of their existence and effectiveness explains the low usage of programmes better than their poor implementation. Except for the LBSC and loan programmes, SMME entrepreneurs are seemingly satisfied with the assistance they receive.

Throughout the study, it was noted that there is general lack of awareness in the field of the government's support strategy. Stronger effort is needed to raise awareness. Apart from these general findings, research evidence of the shortcomings of specific programmes is critical for their revision. The skill and knowledge transfer between consultants and business owners is not sufficient, leaving the client continually dependent on consulting advice and technology. Lastly, the study found that there is huge variability in the quality of the consulting profession. Most Ntsika mentors were inexperienced and unskilled. This resulted in poor dissemination of much needed information the SMMEs.

Khula has extended a guarantee scheme to most of the major commercial institutions but has had less success than anticipated in encouraging commercial banks to increase access to finance for smaller businesses and start-ups. The success of Khula's credit programme depends almost entirely on the commercial banking sector's willingness to lend to SMMEs, which banks are not inclined to do. Khula is heavily dependent on commercial banks, yet it has not developed effective mechanisms for bringing the banking sector into small business lending as a partner.

The level of utilisation remains far below expectation. Research evidence suggests that, the coordination and communication between and within networks is poor. Moreover, both the marketing and implementation of the LBSC and RFI programmes seemingly leave room for improvement. Furthermore, the communication strategies of both Ntsika and Khula are aimed towards the developed sectors of the economy. For instance, their reliance on very professional, attractive English-language brochure means that they do not communicate effectively with their targeted market. There is need for Ntsika and Khula to develop strong communication pro-

grammes and techniques so as to reach their intended target and also bring about awareness of the programmes.

RECOMMENDATIONS

Raising Awareness of Ntsika and Khula Programmes

Research evidence shows that SMMEs' awareness of Khula and Ntsika is generally low. Disappointment prevails among SMME entrepreneurs whose applications were turned down, and frustration about the discontinuing of specific schemes is high. Nevertheless, a first prerequisite for SMME promotion to occur is awareness of such efforts. SMME support initiatives need to reach their target groups.

There should be proper training of advisors and mentors and researching of topical small enterprise issues. This challenge falls on education, training and research centres across the country. Small enterprise owners are often unaware of market opportunities or feel too inhibited to explore new avenues. This calls for more than just the dissemination of general information. Special programmes, training workshops and group efforts are a few examples of initiatives prepared for specific target groups of small enterprises.

Provision of Aftercare Services

Given the general financial and capacity constraints of Khula and Ntsika and their need to meet performance targets, provision and training in evaluation, a need arises of client aftercare services. This would benefit both the individual intermediary and overall service delivery. Whilst training is essential, proper aftercare needs to follow in order for the process to have more impact on small business development. Measures should be taken not to over-invest in training at the expense of aftercare services.

Co-operation between Khula and Ntsika

If financial and non-financial services are not closely co-ordinated, many benefits are lost. It is extremely beneficial to combine financial and non-financial services. To conduct training and

mentoring before and after the SMME owner receives a loan to make sure that the best and most appropriate use is made of borrowed funds. Therefore, Khula and Ntsika need to operate together at the local level and at headquarters. Strict separation of the two organisations is self-defeating for both. While they should obviously not be merged, it would be beneficial if they are physically housed under one roof. Technical support programs must be in place before financial support is given.

As capacities vary and non-financial support is separated from the financial, stronger interference between intermediaries is needed to affect the delivery of 'packaged' support services to SMMEs. This would entail awareness of the existence of other service providers in the area and regular and interactive meetings amongst such service providers to build trust-relationships.

Increasing Access to Bank Loans

An attempt should be made to work with the banking sector through mechanisms or institutions other than credit guarantees. Khula and the banking sector should jointly participate in and finance mentoring services for small business borrowers. Khula should liaise with the banks and credit institutions to lower their requirements. This should be done so that SMMEs can get enough access to finance for their business activities. The banks will get the assurance that they can recover their money.

The revised Credit Guarantee Scheme should increase access to finance from banks for SMMEs. Furthermore, it is impossible for all banks lending to SMMEs to go through the guarantee scheme. In order to evaluate the success of the scheme and to monitor changes in the banking culture, it is critical that bank lending to SMMEs is disclosed. New legislation that encourages disclosure of all community lending by banks is now being considered.

In conclusion, the literature review, the above findings, analysis and recommendations show that Khula and Ntsika can play a vital role in providing both financial and non-financial services to SMMEs. Nonetheless, the development and promotion of South Africa's SMME suffer from implementation of policy initiatives, which is, woefully inadequate. Appropriate adjustments should, therefore, follow recommended actions.

Programmes should be tailored, as much as possible, to the needs of SMMEs in specific locations rather than be generic and inflexible.

LIMITATIONS AND AREAS FOR FURTHER RESEARCH

The paper was limited to two funding agencies in South Africa. This initial study could be expanded to include more funding agencies in the country. Comprehensive results could be obtained from the inclusion. Furthermore, the use of field research would also improve the findings by getting the perceptions of the people involved in the funding (agencies and recipients). Our forthcoming paper will take that into consideration.

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